

**TESTIMONY OF MELLODY HOBSON
PRESIDENT
ARIEL INVESTMENTS**

Before the

**SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND
THE DISTRICT OF COLUMBIA
HON. DANNY K DAVIS, CHAIRMAN**

**COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
U. S. HOUSE OF REPRESENTATIVES**

**“INVESTING IN THE FUTURE: MINORITY OPPORTUNITIES AND THE
FEDERAL RETIREMENT THRIFT SAVINGS PLAN (TSP)”**

JULY 10, 2008

INTRODUCTION

Thank you Chairman Davis and Ranking Member Marchant and members of the Subcommittee. My name is Melody Hobson and I am the President of Ariel Investments, an executive board member of the Investment Company Institute and a board member of NASP. I greatly appreciate the opportunity to be here today and provide you with a brief overview of our firm, our business, and our larger social mission.

Our Chairman and CEO John W. Rogers, Jr., founded the firm in 1983 when he was just 24 years old. Based in Chicago, Ariel Investments serves individual investors and 401(k) plans through its no-load mutual funds. Additionally, Ariel manages separate accounts for corporate, public, union and non-profit organizations. Throughout our 25-year history, patience has served as the bedrock of Ariel's investment philosophy and approach to building the firm. By adhering to a consistent and disciplined approach,

Ariel has grown from 2 to 100 employees with \$8.9 billion in assets under management. Currently, we have more than 1,450,000 investors in our mutual funds.

As the country's first African American owned money management firm we have a unique viewpoint and perspective on the retirement challenges facing the country. Even today, we are still the only minority owned mutual fund company in America whose prices are listed in the daily newspapers.

Just to give you a little insight into our investing approach, there are more than 15,000 publicly traded stocks on the market, but our three funds have a combined total of just 55 holdings.

That's because we only buy what we believe in. We look for leading brands in established industries with high quality management teams. We analyze all financial statements to ensure that we are buying financially strong companies.

As value investors, we don't buy cheap stocks: we buy quality stocks at low prices. Our focus is primarily on small and mid cap companies because they have room to grow—and on unloved ones because when they return to favor their stock prices appreciate more quickly. Altogether this is a good recipe for great long-term returns.

OUR TRACK RECORD

The financial industry has recognized our performance in a number of ways: Through our research process, our discipline and our focus we have established a proven track record over the past 25 years. According to fund rating service Lipper, Ariel Fund ranks 2nd out of 7 Mid-Cap Core Funds for the since-inception period beginning November 1986 and ending March 2008. Lipper also lists Ariel Appreciation Fund as ranking 13th out of 45 Multi-Cap Core Funds since its inception in 1989 through March 2008. Investment analysis firm Morningstar includes Ariel Appreciation as an Analyst Pick in the Mid-Blend category, meaning that it is one of its highest-conviction recommendations.

On the specific question of active vs. passive management of the thrift savings plan, I would say that over the long haul, many money management firms, including ours, have outperformed the market. I am a firm believer in active management and the greatest investor of all time, Warren Buffett, has proved its success many times over.

But there's a larger issue at stake. The question is who is being left behind in a defined contribution retirement system like the one we are moving towards – rather than the defined benefit system that is rapidly disappearing from many corporations and even some sectors of government?

The harsh fact is that minorities – who have less exposure, experience and comfort with the stock market—are falling behind. That is why – in addition to our corporate mission to manage money for our clients – we also have a social mission to promote saving,

investing and wealth-building in the minority community and specifically to bring the topic of saving and investing to the dinner table of every African-American family.

To that end, for the past ten years we have partnered with The Charles Schwab Corporation on an annual survey comparing the saving and investing habits of middle- and upper-income Blacks and Whites. We have released the results each year to highlight the barriers to greater wealth-building among Blacks – including lack of knowledge and exposure, lack of trust in the financial services industry in part due to the lack of diversity, and a historical preference for real estate. Because of these factors, we have learned that Blacks typically have half as much money saved for retirement as Whites with similar incomes.

We were very hopeful that the story would be different in large corporations offering company-sponsored retirement plans, but in the first few companies where we checked – we found alarming discrepancies between Black and White savings rates – sometimes by a factor of three or four. Many do not even contribute enough to take advantage of the company match. We have also learned Blacks borrow more against their 401k plans, are less diversified in their investment choices and are less likely to roll-over their retirement savings when switching jobs.

Recently we secured a grant from the Rockefeller Foundation to conduct a study with a leading benefits administrator on minority participation in 401(k) plans at America's largest corporations. That work is just beginning and we are very hopeful that this study

will inform a national conversation on ways to boost minority participation in company-sponsored retirement plans.

Finally, and most importantly, we are introducing financial literacy programs into public schools to help educate future generations of African-American children on the importance of saving and investing. We have sponsored a public school in Chicago, called the Ariel Community Academy, for over a decade that teaches inner-city children how to invest in the stock market. We give each incoming first grade class a portfolio of \$20,000 in real money to invest. When they graduate, we allow them to keep their profits or have them matched with an additional \$1,000 if they choose to invest in a 529 plan. Additionally, we are now working with the public schools in Chicago to expand this program to other schools.

Through all of these efforts, Ariel has established itself as a national expert on minority saving and investing habits and a leader in promoting financial literacy in our community. Our research suggests that proactive and targeted efforts on the part of employers, especially in seeking out minority managers, can help minorities who work in the government and private sectors invest at a level that guarantees a secure and comfortable retirement. Ariel welcomes any opportunity to be involved.

CONCLUSION

Thank you for inviting me to speak on this important issue. I look forward to your questions. My colleagues at Ariel and I would welcome the chance to work with you on the issues related to minority investment managers.